New York State
Insurance Department

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AIG SETTLES FRAUD, BID-RIGGING AND IMPROPER ACCOUNTING CHARGES

State and federal regulators today announced agreements that resolve pending litigation and investigations of fraud, bid-rigging and improper accounting by the nation's largest insurance company.

Under the agreements, American International Group (AIG) has acknowledged misconduct, adopted a series of groundbreaking reforms and agreed to pay more than $1.6 billion in restitution and penalties.

The agreements were announced simultaneously by the New York Attorney General, the New York Insurance Department, the Securities and Exchange Commission (SEC) and the United States Department of Justice.

Attorney General Eliot Spitzer said: "AIG was and is a solid company that didn't need to cheat. It finds itself in this position solely because some senior managers thought it was acceptable to deceive the investing public and regulators. However, by changing management, implementing reforms and providing restitution to injured investors, customers and states, the company has placed itself on a path toward resurgence."

Howard Mills, State Insurance Superintendent, said: "AIG has today acknowledged that the company over a period of years intentionally misled investors, regulators and policyholders about the company's financial condition and operations. We're pleased that AIG is making amends to all those who were adversely affected by its conduct and applaud the current management team's willingness to reform their financial reporting and corporate governance practices. We are confident that these steps will allow AIG to remain one of the world's premier financial services companies."

In the fall of 2004, the Attorney General's office and the Insurance Department began investigating AIG for bid-rigging as part of an ongoing probe of misconduct in the insurance industry. Before today, that probe had resulted in more than $1 billion in restitution to policyholders and guilty pleas from 20 insurance company executives and officers, including four former AIG employees.

In early 2005, the Attorney General, the Insurance Department and the SEC began jointly investigating a series of allegedly fraudulent transactions by AIG and its senior officers, including a sham transfer of "loss reserves" from the General Re Corporation (Gen Re) to AIG in late 2000 and early 2001 to bolster the public view of AIG's underwriting performance.

On May 26, 2005, the Attorney General and the Insurance Superintendent sued AIG and its former Chairman and CEO and Chief Financial Officer for violations of New York's Martin Act and other state laws in connection with: (i) the Gen Re transaction and other efforts to inflate reserves; (ii) other transactions designed to conceal underwriting losses by converting them into capital losses; (iii) misleading the New York Insurance Department about offshore AIG affiliates; and (iv) improper reporting of workers'compensation premiums.

In a federal indictment announced last week, a Virginia grand jury charged four former senior officers at Gen Re and AIG with fraud and said other "senior level executives at AIG" were co-conspirators.

Today's SEC resolution addresses many of the transactions described in New York's lawsuit. As part of that resolution, the SEC filed a complaint and consent judgement alleging that for at least five years AIG "materially falsified financial statements through a variety of sham transactions and entities whose purpose was to paint a falsely rosy picture of [the company's] financial results to analysts and investors."

In a statement today, AIG acknowledged that it was wrong to provide incorrect information to the investing public and regulators and that it "regrets and apologizes" for its conduct. Since the investigation began, AIG has also restated its earnings by more than $3.5 billion.

Under today's agreements, $800 million will go to investors deceived by false financial statements, $375 million to AIG policyholders harmed by bid rigging activities and $344 million to states harmed by AIG's practices between 1986 and 1995 involving workers' compensation funds. In addition, New York and the SEC have each assessed $100 million in penalties against the company. The SEC's penalty will go into the fund for investors.

Among the reforms in today's agreement, AIG will sharply curtail the use of "contingent commissions." It will pay no contingent commissions in excess casualty lines of insurance through 2008. In addition, AIG has agreed to stop paying such commissions in any line of insurance where companies with 65 percent of gross written premiums do not do so. The company has also agreed to support legislation banning contingent commissions and requiring greater disclosure of compensation to brokers and agents. It will be providing new disclosures about ranges of compensation paid to brokers and agents by insurance product on a special web site later this year.

The agreement also provides for additional reinsurance reporting obligations by AIG to the Insurance Department and monitoring of financial reporting and corporate governance practices by the Insurance Department and the SEC.

Today's agreement with the company does not resolve the pending case against the company's former Chairman and Chief Executive Officer, Maurice R. "Hank" Greenberg, and its former Chief Financial Officer, Howard Smith.

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